

Message Text

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C O N F I N A E N T I A L CAIRO 9350

EXDIS

E.O. 11652: GDS

TAGS: EADI, PFOR, IMF, EG

SUBJECT: ASSISTANCE TO EGYPT: IMF PROGRAM

REFS: (A) STATE 168467 (B) STATE 169778

SUMMARY: OVERALL OUTLOOK FOR IMF PROGRAM IS PRESENTLY
QUITE POOR. EGYPTIAN INTERNAL CIRCUMSTANCES APPEAR
TO PRECLUDE ANY MEANINGFUL MOVEMENT. END SUMMARY.

1. DICKET CALLED ON AMBASSADOR JULY 9 FOR DISCUSSION
OF SITUATION AND POSSIBILITIES FOR IMPLEMENTATION OF
IMF STANDBY. SITUATION IS ESSENTIALLY AS REPORTED REF B,
ALTHOUGH DICKET APPEARS TO BE RATHER PESSIMISTIC AS TO POSSIBILITIES.

2. DICKET SAID THAT SITUATION IS FAIRLY DELCIATE GIVEN FACT THAT
ALMOST EVERYTHING EGYPTIANS HOPE TO RECEIVE IS CONTINGENT UPON
COMPLETION (OR AT BAREST MINIMUM GESTURE TOWARDS) STEPS AND
MEASURES WHICH THEY APPEAR TO BE UNWILLING OR UNABLE TO TAKE. AS
ILLUSTRATION, DICKET MENTIONED THAT ASSISTANCE AVAILABLE FROM
CHASE MANHATTAN - \$50 MILLION FOR COMMERCIAL MARKET (CM)
STABILIZATION FUND PLUS \$50 MILLION FOR COTTON PREFINANCING, WILL
BE EXTENDED ONLY AFTER IMPLEMENTATION OF CM. LIKELIHOOD OF NEW
MARKET BEING ESTABLISHED HAS DIMINISHED SHARPLY AS RESULT OF FACT
THAT GOE HAS UTILIZED TOTALITY OF \$108 MILLION COMPENSATORY
FINANCING FROM FUND TO COVER EXPENDITURES UNDER FOREIGN EXCHANGE
BUDGET. THIS MONEY IS THEREFORE NO LONGER AVAILABLE FOR USE AS
CONTRIBUTION TO STABILIZATION FUND. (DICKET REPORTS IMF WAS UNAWARE
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THAT THIS DEVELOPMENT HAD BEEN A STRONG POSSIBILITY FOR SOME TIME.)

ALTHOUGH SHAFEI HAD EARLIER ASSURED HIM COMPENSATORY FUND WOULD BE HELD FOR CM, ABU ISMAIL SEEMS TO HAVE PERSUADED PRIMIN THESE FUNDS URGENTLY NEEDED FOR PAYMENT OF CURRENT GOE OBLIGATIONS.

3. DICKEY'S CONVERSATIONS HAVE REVEALED THAT CM, WHICH WAS ONE OF MAJOR CONDITIONS PRECEDENT FOR STANDBY, APPEARS UNATTAINABLE IN NEAR-TERM. EGYPTIANS ARE NOW TALKING OF AMOUNTS REQUIRED FOR STABILIZATION FUND WHICH ARE GREATER THAN WHAT HAD EARLIER BEEN CONSIDERED NECESSARY. IN ADDITION, SINCE CM IS CATCHING FLAK THAT HAS BEEN GENERATED IN CONNECTION WITH OTHER ECONOMIC MEASURES PROPOSED BY GOE, TIME-FRAMXYJF AFTER THE ELECTIONS, "MAYBE IN SEPTEMBER", AS REPORTEDLY MENTIONED BY SHAFEI, IS BEST THAT CAN BE EXPECTED.

4. DICKET CONFIRMED THAT SHIFTING OF IMPORTS AND EXPORTS TO PARALLEL RATE HAS FALLEN WELL SHORT OF ANNOUNCED TARGETS. ANNUAL RATE, BASED ON PERFORMANCE TO DATE, WOULD PUT TRANSFERS AT LE 488 MILLION VICE LE 632 MILLION. WHILE PART OF THIS SLIPPAGE HAD BEEN ANTICIPATED (PERMITTING IMPORTS OF PETROLEUM PRODUCTS TO REMAIN AT OFFICIAL RATE IN ORDER TO BE CONSISTENT WITH EXPORTS), THERE HAVE BEEN NUMBER OF OTHER DELETIONS WHICH ARE NOT AS ACCEPTABLE, E.G., ALL IMPORTS FOR MINISTRY OF TRANSPORT AND COMMUNICATIONS. DICKEY NOTES (RIGHTLY, IN OUR VIEW) THAT GOE CLEARLY CONCERNED ABOUT PRICING IMPACT OF IMF RECOMMENDATIONS AND IS THEREFORE WAFLING.

5. NUMBER OF OTHER LESS SUBSTANTIAL, BUT STILL SIGNIFICANT, MEASURES HAVE FAILED TO LIVE UP TO EXPECTATIONS. INTEREST RATES HAVE NOT BEEN CHANGED, AIRLINE FARES ARE STILL SUBSIDIZED, TARIFF MEASURES HAVE BEEN LESS SWEEPING, CREDIT QUESTION REMAINS UNSETTLED, AND REDUCTIONS IN SUBSIDIES ARE SMALLER THAN HAD BEEN PLANNED. AS RESULT, AS INDICATED REF A, ENTIRE IMF PROGRAM VERY MUCH IN DOUBT.

6. AMBASSADOR BRIEFED DICKEY ON SEVEN POINT PROGRAM AND U.S. PART IN ENCOURAGING ADDITIONAL DONOR SUPPORT FOR EGYPT. IN ANSWER TO DICKEY'S QUERY, HE POINTED OUT THAT U.S. HAS NO ROLE IN JULY 17 MEETING IN CAIRO FOR ESTABLISHMENT OF ARAB FUND FOR EGYPT, BUT ADDED THAT U.S. HAS BEEN ENCOURAGING EGYPTIANS TO LET IT GET SET UP AND STARTED, SO THAT DISBURSEMENTS CAN BEGIN; QUESTIONS AS TO SIZE CAN BE SETTLED LATER. DICKEY POINTED OUT THAT FUND WAS CONFIDENTIAL

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PREPARED TO TAKE A ROLE AT MEETING IF IT DEVELOPED THAT EGYPTIANS SERIOUSLY INTENDED TO MOVE AHEAD WITH IMPLEMENTATION IMF PROGRAM.

7. DICKEY REPORTED THAT SHAFEI HAD REMAINED IN ALEXANDRIA FOR MEETING WITH SADAT JULY 10, AND HAD BEEN URGENTLY GATHERING INFORMATION ON NEW LAWS, LEGISLATION, REGULATIONS AFFECTING ECONOMY, APPARENTLY FOR DISCUSSION AT MEETING. WITH EMBASSY HELP, DICKEY MADE EFFORTS TO CONTACT SHAFEI/GHANDOUR FOR PURPOSE

FIXING MEETING IN ALEXANDRIA FOLLOWING SESSION WITH SADAT, BUT WAS ENCOUNTERING DIFFICULTY WHEN LAST SEEN. HE PROMISED TO KEEP IN TOUCH RE DEVELOPMENTS ON BOTH SPECIFICS AND GENERAL NATURE OF IMF ACTIVITIES.

8. WITH REGARD PARA 4, REF A, \$300 MILLION MENTIONED BY SHAFEI MAY CONSIST OF \$108 MILLION FROM COMPENSATORY FINANCING, \$50 MILLION FROM CHASE, AND \$150 MILLION REPRESENTING UNUTILIZED BALANCES OF COMMERCIAL BANKS FOR PARALLEL MARKET TRANSACTIONS. DICKEY SAYS THAT COMPUTING STABILIZATION FUND NEEDS AT \$3 MILLION PER DAY, AN AMOUNT OF ABOVE SIZE WOULD HAVE COVERED 100 DAYS OF COM OPERATIONS, A PERIOD CONSIDERED SUFFICIENT FOR INITIAL ACTIVITIES. EXPENDITURE OF FUND COMPENSATORY FINANCING, AND CONTINGENCY NATURE OF CHASE CONTRIBUTION, SEEMS TO REMOVE POSSIBILITY AT THIS TIME. PARENTHETICALLY, DICKEY AGREED THAT FOREIGN EXCHANGE MEASURE CURRENTLY BEFORE PEOPLES ASSEMBLY, WHICH WOULD INTER ALIA PERMIT ALL EGYPTIANS TO OWN AND HOLD FOREIGN EXCHANGE AND GIVE EXPORTERS SIX-MONTH PERIOD IN WHICH THEY CAN RETAIN EXPORT EARNINGS, IS CLEARLY NOT SORT OF LEGISLATION THAT EGYPT NEEDS AT THIS TIME. OF GREATER IMPORTANCE, IT WOULD PLACE EXCESSIVE BURDENS ON CM, WHICH MUST BE KEPT ISOLATED FROM PRESSURES OF THAT SORT.

9. COMMENT: INASMUCH AS OUR SEVEN POINT PROGRAM IS ENTIRELY LINKED TO AGREEMENT WITH IMF, PRESENT SITUATION PLACES US IN DIFFICULT POSITION. WE HAVE REPEATEDLY AND CONSISTENTLY URGED GOE TO TAKE APPROPRIATE STEPS TO SECURE STANDBY, AN EFFORT WHICH NOW APPEARS TO BE HAMSTRUNG BY DOMESTIC POLITICAL PROBLEMS OF GOE'S OWN MAKING. RECURRENT AND GROWING REPORTS THAT NO REFORMS WILL BE POSSIBLE UNTIL AFTER ELECTIONS DECREASES LIKELIHOOD OF MEANINGFUL MOVES PRIOR TO THAT TIME. THERE IS ALSO POSSIBLIT, HOWEVER UNFORTUNATE, THAT ARABS MAY NOT BE UNHAPPY AT FAILURE TO CONCLUDE AGREEMENT WITH IMF. THIS WOULD TEND TO JUSTIFY THEIR PREVIOUS HESITATION AND REDUCE PRESSURES FOR ADDITIONAL CONTRIBUTIONS. IN THIS CONNECTION, DICKEY CONFIDENTIAL

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ESTIMATED THAT \$800 MILLION WILL BE REQUIRED TO SEE EGYPT THROUGH END OF THIS YEAR. HIS ESTIMATE WAS BASED ON EGYPT MAINTAINING PRESENT ARREARAGES ON BANKING FACILITIES, CURRENTLY RUNNING AT ABOUT 60 DAYS. IF BANKS WILL CONTINUE TO ACCEPT THIS SITUATION, AND MONEY COMES IN, DICKEY BELIEVES EGYPT CAN MAKE IT.

10. EMBASSY'S SUGGESTIONS RE APPROPRIATE ACTION BY SEPTEL. EILTS

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